

Message Text

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FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY IMMEDIATE
SECSTATE WASHDC IMMEDIATE 2153

C O N F I D E N T I A L SECTION 01 OF 03 PARIS 12322

PASS FEDERAL RESERVE

E.O. 11652: GDS
TAGS: EFIN, FR
SUBJECT: BARRE PLAN BIS

REFTEL: PARIS 9003; 8937; 28208, 1976; 28065, 1976;
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1. SUMMARY:
BARRE PLAN BIS, THE GOF'S ACTION PROGRAM FOR THE NEXT
TWELVE MONTHS, FEATURES A 3.3 BILLION FRANC INCREASE IN
EXPENDITURES IN 1977 LARGELY TO AID THE EMPLOYMENT OF
YOUTH, ASSIST THE AGED AND FAMILIES AND TO SPEED-UP
PUBLIC SECTOR SPENDING. THESE MEASURES WERE CAREFULLY
CALIBRATED TO AVOID AN ADVERSE REACTION IN FINANCIAL
AND FOREIGN EXCHANGE MARKETS. ALONG WITH THE 11.5
BILLION FRANCS IN VARIOUS AID FOR INVESTMENT ANNOUNCED
SINCE LAST OCTOBER, THEY COULD RAISE REAL GNP GROWTH
BY BETWEEN 1/4 AND 1/2 OF ONE PERCENT IN 1977, AND
REDUCE UNEMPLOYMENT SOMEWHAT. THE INITIAL REACTION
TO BARRE PLAN BIS HAS BEEN EVEN COOLER AND MORE
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POLITICALLY DIVISIVE, PARTICULARLY WITHIN THE
MAJORITY PARTIES, THAN WAS THE CASE WITH THE
ORIGINAL BARRE PLAN. ALTHOUGH PASSAGE IN THE
ASSEMBLY SEEMS ASSURED, THE GOF WILL RECEIVE A
HIGHLY QUALIFIED VOTE OF CONFIDENCE IN ITS POLICIES.
THE GOF PROBABLY WILL HAVE VERY HEAVY GOING IN THE
COMING MONTHS. MANY WHO FEEL COMPELLED TO SUPPORT

BARRE PLAN BIS DISPARAGE IT AS ONLY A DOSE OF ASPIRIN WHILE THOSE WHO OPPOSE IT INSIST UPON DISMISSING THE DOCTOR AND HIS ENTIRE SYSTEM OF MEDICINE. THUS, A CAUTIOUS, BALANCED SET OF LIMITED ECONOMIC MEASURES HAS INTENSIFIED POLITICAL DEBATE; AND THE PRESSURES REVEAL MORE CLEARLY THAN EVER DIVISIONS WITHIN THE MAJORITY PARTIES. END SUMMARY

2. SUMMARY OF MEASURES AND COST:

A. MEASURES FOR EMPLOYMENT: EXEMPTION OF SOCIAL SECURITY CHARGES FOR FIRST TIME EMPLOYMENT OF YOUTH (25 YEARS OLD OR LESS) FOR ONE YEAR; NO SOCIAL SECURITY CHARGES FOR APPRENTICES DURING ENTIRE PERIOD OF APPRENTICESHIP; ADDITIONAL EMPLOYMENT IN PUBLIC SECTOR; AID TO ASSIST RETURN OF FOREIGN WORKERS; PLUS VARIOUS MORE OR LESS ADMINISTRATIVE MEASURES TO IMPROVE EMPLOYMENT SERVICES AND PROFESSIONAL ORGANIZATIONS. THE COST IN 1977 WILL BE 1.745 BILLION FRANCS, ENTIRELY OUT OF THE BUDGET. NO FUNDING IS PROVIDED FOR 1978.

B. MEASURES FOR THE FAMILY: INCREASED FAMILY ALLOWANCES, MATERNAL ASSISTANCE, ADDITIONAL BENEFITS FOR WORKING MOTHERS, INCREASED ALLOWANCE FOR AGED. COST IN 1977 WILL BE 449 MILLION FRANCS (30 MILLION FROM THE STATE, 419 MILLION FROM SOCIAL SECURITY). COST IN 1978 WILL BE 710 MILLION FRANCS (40 MILLION CONFIDENTIAL

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FROM THE STATE, 670 MILLION FROM SOCIAL SECURITY).

C. MEASURES FOR THE AGED: INCREASED OLD AGE ALLOWANCES, REDUCTION OF AGE REQUIREMENTS, CERTAIN FISCAL BENEFITS FOR RETIREMENT. COST IN 1977 WILL BE 631 MILLION FRANCS (295 MILLION FROM THE STATE, 336 MILLION FROM SOCIAL SECURITY) AND 2.9 BILLION IN 1978 (1.6 BILLION FROM THE STATE, 1.3 BILLION FROM SOCIAL SECURITY).

D. SPEED-UP IN PUBLIC SECTOR SPENDING, MAINLY INVESTMENT OF 1.25 BILLION FRANCS IN 1977 AND 600 MILLION FRANCS IN 1978.

3. FINANCING BARRE PLAN BIS AND 1977 BUDGET DEFICIT:

THE ESTIMATED 13.3 BILLION FRANC DEFICIT FOR 1977 WILL BE FINANCED BY INCREASED GASOLINE TAXES (860 MILLION), A SPEED-UP OF TAX COLLECTIONS FROM

FINANCIAL INSTITUTIONS (650 MILLION), A LONG-TERM

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TO DEPARTMENT OF TREASURY IMMEDIATE
SECSTATE WASHDC IMMEDIATE 2154

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GOF BOND ISSUE (6 BILLION), AND 5.8 BILLION OF TREASURY
SHORT AND MEDIUM DEBT OPERATIONS, PRESUMABLY TREASURY
BONDS PLACED IN THE MONEY MARKET. THE LONG-TERM BOND
ISSUE WILL BE GUARANTEED AGAINST FRANC DEPRECIATION
BY BEING RELATED TO THE EUROPEAN UNIT OF ACCOUNT, AND
INTEREST IN THESE BONDS WILL BE EXEMPT FROM TAXES ON
INTEREST EARNED AND FROM CAPITAL GAINS. OTHER TERMS
AND CONDITIONS WILL BE ANNOUNCED SOON. THE GOF
OBVIOUSLY HOPES FOR SUBSTANTIAL FOREIGN PURCHASES
OF THIS NEW ISSUE.

4. ECONOMIC IMPLICATIONS:

IN PRESENTING THE GOF PROGRAM BARRE STRESSED
THE SUCCESS OF HIS PROGRAM TO DATE --
STABILITY OF THE FRANC, REDUCED RATE OF INFLATION,
IMPROVED BUSINESS ATTITUDE -- BUT ADMITTED UNEMPLOYMENT
AND RELATED PROBLEMS OF THE YOUNG AND THE AGED REQUIRE
SPECIFIC ACTION WITHIN THE FRAMEWORK OF THE ONGOING
ADJUSTMENT OF THE ECONOMY. BARRE AND THE GOF KNOW
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THAT THEIR ECONOMIC POLICY IS HOSTAGE TO THE VAGARIES OF THE FOREIGN EXCHANGE MARKET. THEY HAVE MADE THE STABILITY OF THE FRANC ONE OF THE CORNERSTONES OF THEIR POLICY. A RAPID DEPRECIATION OF THE FRANC WOULD SYMBOLIZE THE FAILURE OF THE BARRE PLAN AND WITH IT THE CREDIBILITY OF THE GOVERNMENT. THUS, BARRE TOOK GREAT CARE TO REASSURE THE EXCHANGE AND MONEY MARKETS AT CONSIDERABLE COST TO THE OVERALL PSYCHOLOGICAL OR POLITICAL APPEAL OF HIS PROGRAM. THE MEASURES PRESENTED SHOULD NOT BY THEMSELVES DISTURB FINANCIAL MARKETS IN FRANCE, BUT THIS DOES NOT REMOVE THE DANGER. THE POLITICAL NEED, AT LEAST PARTLY SELF-IMPOSED, TO MAINTAIN A STABLE FRANC WILL DOMINATE GOF CONCERNS AND POLICY IN THE COMING MONTHS.

BARRE PLAN BIS IN COMBINATION WITH THE CUMULATIVE 11.5 BILLION FRANC PROGRAM TO AID INVESTMENT THAT BEGAN LAST OCTOBER COULD CAUSE GNP TO GROW BY FROM 1/4 TO 1/2 OF ONE PERCENT MORE IN 1977 IN REAL TERMS, OR AN ANNUAL REAL RATE OF ABOUT 3.5 PERCENT IN 1977. WHILE DETAILS ARE AVAILABLE FOR FINANCING THE ESTIMATED 1977 BUDGET DEFICIT, THEY ARE LACKING IN TERMS OF THE INVESTMENT INCENTIVE PROGRAM. HOWEVER, INVESTMENT AID PLUS BARRE PLAN BIS TOTALS 14.8 BILLION FRANCS. THE FINANCING MEASURES ABOVE TOTAL 13.3. THE BALANCE OF 1.5 BILLION FRANCS CAN BE ACCOUNTED FOR BY THE CREDIT NATIONAL LOAN PROGRAM TO SUPPORT INVESTMENT. THUS, TREASURY DEBT OPERATIONS THAT CAN BE MONETIZED WILL TOTAL ONLY ABOUT 6 BILLION FRANCS THIS YEAR. THIS WILL PROBABLY PUSH THE GROWTH OF M2 SLIGHTLY ABOVE THE 12.5 PERCENT ANNUAL GROWTH TARGET. HOWEVER, ON BALANCE, BARRE PLAN BIS PLUS INVESTMENT AID SHOULD NOT BY THEMSELVES CAUSE EXCESSIVE PRESSURES IN FINANCIAL MARKETS AND THEY SHOULD CAUSE A SLIGHTLY HIGHER REAL GROWTH RATE AND SOME REDUCTION

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IN UNEMPLOYMENT. THERE REMAINS THE POSSIBILITY THAT THE GOF WILL INCREASE EXPENDITURES IN THE LAST HALF OF 1977 IN ORDER TO BOOST THE ECONOMY AND INCLUDE THE DEFICIT IN THE 1978 BUDGET, BUT ITS ABILITY TO DO SO WILL BE CONSTRAINED BY BALANCE OF PAYMENTS AND EXCHANGE MARKET CONSIDERATIONS.

HOWEVER, THE SUCCESS OF GOF ECONOMIC POLICY COULD

AT BEST BLUNT ECONOMIC ISSUES IN THE LEGISLATIVE ELECTIONS. THIS IS ABOUT THE BEST THAT COULD BE HOPED FOR IN THE NEXT TEN MONTHS FOR A BASICALLY CAUTIOUS PROGRAM. THE REAL PROBLEM IS THAT AN OBVIOUS FAILURE SYMBOLIZED BY EXCHANGE RATE INSTABILITY AND CONTINUED INFLATION WOULD PROBABLY BE FATAL TO A DIVIDED MAJORITY IN THE LEGISLATIVE ELECTIONS.

5. POLITICAL IMPLICATIONS:

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WHEN PRESENTING HIS PLAN, BARRE "ENGAGED THE RESPONSIBILITY OF HIS GOVERNMENT," OPENING THE DOOR TO A POSSIBLE MOTION OF CENSURE. RPR ASSEMBLY GROUP LEADER CLAUDE LABBE DECLARED IN A STATEMENT FOLLOWING BARRE'S PRESENTATION THAT THE RPR "DID NOT CONSIDER THE PRESENT GOVERNMENT CAPABLE, IN ITS PRESENT FORM, OF ASSUMING THE TASK OF RESTORING CONFIDENCE." IT IS OBVIOUS THAT LABBE'S TWO-HOUR LONG DISCUSSION WITH PRIME MINISTER BARRE ON APRIL 22 PAVED THE WAY FOR THE UNCOMFORTABLE ACCORD THAT HAS BEEN REACHED. RUMOR HAS IT THAT BARRE WAS WARNED BY LABBE NOT TO MAKE THE BARRE-BIS PLAN INTO SOME KIND OF OVERALL PACKAGE CONTAINING PROPOSALS ON THE EUROPEAN

PARLIAMENT AND ON PROPORTIONAL REPRESENTATION,
BOTH HIGHLY TOUCHY SUBJECTS WITHIN THE MAJORITY.
IRONICALLY BARRE HIMSELF, WHEN PRESENTING HIS
PLAN IN THE NATIONAL ASSEMBLY, UNDERScoreD THE
NECESSITY FOR COHESION IN THE MAJORITY. WHATEVER THE
CASE, LABBE'S STATEMENT COMES AS CLOSE TO A MOTION
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OF CENSURE AS THE RPR COULD MAKE WITHOUT ACTUALLY
VOTING SUCH A CENSURE.

6. ONLY THE CENTER PARTIES APPLAUDED BARRE DURING
HIS PRESENTATION AND ONLY THEY LAUDED HIS PROGRAM
IN THEIR PUBLIC STATEMENTS. OPPOSITION PARTY LEADERS
MITTERRAND AND BALLANGER LEVELED PARTICULARLY VICIOUS
ATTACKS ON PRIME MINISTER BARRE AND HIS GOVERNMENT.
THE RPR HAS GIVEN FORMAL PUBLIC UTTERANCE FOR THE
FIRST TIME THAT IT HAS LOST ALL CONFIDENCE IN GOF
TO HANDLE THE POLITICAL AND SOCIAL PROBLEMS NOW
FACING FRANCE. THIS AMOUNTS TO AN OBLIQUE RESIGNATION
ON THE PART OF THE RPR CONCERNING FORTHCOMING ELECTIONS.
THE ONLY CONCLUSION TO BE DRAWN IS THAT THE RPR
WISHES TO DISTANCE ITSELF FROM THE POLICIES OF GOF,
SO AS TO KEEP ITS OPTIONS OPEN. THEIR PROFOUND
DISAPPOINTMENT OVER THE SEEMING INABILITY OF THE
BARRE GOVERNMENT TO COME TO GRIPS WITH THE PRESSING
PSYCHOLOGICAL AND POLITICAL ASPECTS OF THE ECONOMIC
SITUATION MUST BE VIEWED IN THE CONTEXT OF A LONG
HISTORY OF PROBLEMS BETWEEN FORMER PM CHIRAC AND
GISCARD, BEGINNING -- AT LEAST FOR PUBLIC CONSUMPTION --
WITH CHIRAC'S RESIGNATION IN AUGUST 1976. THERE IS
A CHANCE, ALBEIT A DOUBTFUL ONE, THAT SOMETHING COULD
OCCUR TO PULL THE CURRENT FRENCH GOVERNMENT AND
PARLIAMENTARY MAJORITY OUT OF ITS IMPASSE. BUT IT
IS VERY UNLIKELY GIVEN THE PRESENT SITUATION THAT
BARRE PLAN BIS OR ANY OTHER SET OF PURELY ECONOMIC
MEASURES WOULD RALLY THE MAJORITY BEFORE THE
LEGISLATIVE ELECTIONS.
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